

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

DISTRICT OF COLUMBIA

**Independent Auditors' Report on
Internal Control and
Compliance Over Financial Reporting
Fiscal Year Ended September 30, 2005**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



February 3, 2006

The Honorable Anthony A. Williams
Mayor of the District of Columbia
Mayor's Correspondence Unit, Suite 221
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

The Honorable Linda W. Cropp
Chairman
Council of the District of Columbia
John A. Wilson Building, Suite 504
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear Mayor Williams and Chairman Cropp:

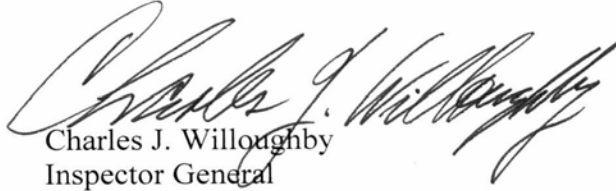
In connection with the audit of the District of Columbia's general purpose financial statements for fiscal year 2005, BDO Seidman, LLP submitted the enclosed final Independent Auditors' Report on Internal Control and Compliance Over Financial Reporting.

This report details identified reportable conditions. Reportable conditions involve matters relating to significant deficiencies in the design or operation of internal control over financial reporting that could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. The two reportable conditions disclosed in the report are: (1) Management of Disability Compensation Program; and (2) Unemployment Compensation Trust Fund. BDO Seidman, LLP also disclosed the need for District officials to better comply with certain provisions of laws, regulations, contracts, and grant agreements. The results of audit tests disclosed instances of non-compliance with procurement regulations, the Quick Payment Act, budgetary authority, and the Financial Institutions Deposit and Investment Amendment Act. BDO Seidman set forth recommendations for correcting the conditions noted.

While the Office of the Inspector General will continue to assess District agencies' implementation of recommendations, it is the responsibility of District government management to ensure that agencies correct the deficiencies noted in audit reports. This Office will work with managers, as appropriate, to help them monitor the implementation of recommendations.

If you have questions or need additional information, please contact William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,



Charles J. Willoughby
Inspector General

Enclosure

CJW/ws

cc: See Distribution List

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**Independent Auditors' Report
on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Mayor and the Council of the Government of the District of Columbia
Inspector General of the Government of the District of Columbia

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **Government of the District of Columbia** (the District), as of and for the year ended September 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 23, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are identified below and described in greater detail in Appendix A.

- I. Management of the Disability Compensation Program
- II. Management of the Unemployment Compensation Trust Fund

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not consider the items described above to be material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the District in a separate letter dated January 23, 2006. The status of prior year reportable conditions is presented in Appendix C.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are identified below and described in greater detail in Appendix B.

- III. Noncompliance with Procurement Regulations
- IV. Noncompliance with the Quick Payment Act
- V. Expenditures in Excess of Budgetary Authority
- VI. Noncompliance with Financial Institutions Deposit and Investment Amendment Act

We also noted certain additional matters that we have reported to management of the District in a separate letter dated January 23, 2006. The status of the prior year instance of material noncompliance is presented in Appendix C.

This report is intended solely for the information and use of the Mayor, the Council, the Inspector General of the District, District management, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

BDO Seidman, LLP

Bethesda, Maryland
January 23, 2006



Appendix A

Reportable Conditions in Internal Controls Over Financial Reporting

I. Management of the Disability Compensation Program

The District through the Office of Risk Management (ORM) administers a disability compensation program under Title XXIII of the District of Columbia Comprehensive Merit Personnel Act of 1978.

Actuarial Analysis

The most recent actuarial loss reserve analysis on this program was performed in fiscal year 2002. It was previously recommended that an actuarial analysis be performed during fiscal year 2004. During the planning stage of the 2005 audit, we recommended an actuarial valuation be performed for fiscal year 2005.

However, due to various issues, an accurate and complete actuarial valuation was not able to be implemented in a timely manner during fiscal year 2005. ORM did engage an actuary to perform this analysis but was not able to provide complete and accurate detailed information in a timely basis to allow the actuary to perform a complete and accurate valuation. The report provided by the actuary, dated December 15, 2005, had substantial limitations such that we were unable to rely on it as a basis for determining the liability to include in the Comprehensive Annual Financial Report (CAFR). For example, the report questioned the claims database, indicated that no historical and projected measures of exposure were provided by ORM, and used an alternate actuarial method that is not the most reliable under generally accepted actuarial principles.

ORM personnel represented in both fiscal years 2004 and 2005 that they are in the process of doing the following:

- Reviewing active claim files to determine if the recorded reserve is accurate and complete. Reviewing claim files is necessary prior to an actuarial analysis. Incomplete information cannot result in a complete and accurate actuarial valuation, as the actuary is utilizing this information in its analysis.
- Developing an effective managerial system to file and maintain both open and closed claims files.

For fiscal years 2003, 2004, and 2005, ORM has performed rollforward procedures in order to estimate the District's disability liability at year-end. Using data that is more than one year old as a basis for rollforwards could lead to significant differences between the estimated liability and the actual results.

Management's Response:

PRM Consulting (PRM) completed the September 30, 2005 actuarial valuation reports for the District's two workers compensation programs (DCP and Uniformed Workers) and their general liability program on December 15, 2005 and a supplemental report for Uniformed Members was completed on January 14, 2006.



Appendix A

Reportable Conditions in Internal Controls Over Financial Reporting

I. Management of the Disability Compensation Program – (continued)

District financial accountants initially indicated that the Uniformed Members reports would not be required. PRM was then notified in the first week of December to complete a report for Uniformed Members and that report was delivered on January 14, 2006.

ORM recognizes the importance of a complete and accurate claims review. We would like the auditors to comment on the completeness and accuracy of the 39 disability claims selected for test work. This will allow PRM and ORM to assess the effectiveness of the current administration of claims.

Since the lack of maintenance of complete historical claim files at DOES and the District is well known, ORM may be limited in being able to re-create any missing claim files. However, we can take steps to ensure that the claims review process will result in accurate claims information. This audit information is essential to ORM's successful claims administration.

The first actuarial analysis was actually performed in fiscal year 2001. For fiscal years 2002, 2003 and 2004, as mentioned earlier, rollforward procedures were used to estimate liabilities. This process was implemented by the Office of Financial Information Systems.

Database Issues

The ORM does not maintain a centralized database which tracks all claims. Currently, claims are maintained in two locations; (i) ORM maintains claims for civilian and noncivilian employees while (ii) the Metropolitan Police Department maintains claims for uniformed personnel.

ORM represents that it is working with a new third-party administrator in its efforts to build a more complete and accurate database. Through our testwork, we determined that certain reserves were not removed timely once a claim was determined to be closed. This leads to the increased risk that the data which is utilized for the District's roll-forward procedures could be inaccurate.

Furthermore, the accuracy of the underlying data used in the District's analysis has proven difficult to assess due to weaknesses in the maintenance of supporting claims files. During our audit process, 6 out of 45 disability claim case files, selected for testwork, could not be located for our review. This issue was identified in the prior year as well.

We recommend that ORM continue to work with its third-party administrator to ensure that its database is complete and accurate. ORM representatives indicate this will be done in the current fiscal year. Once complete, ORM should contract for an actuarial reserve loss analysis to be performed for fiscal year 2006 and each year thereafter.



Appendix A

Reportable Conditions in Internal Controls Over Financial Reporting

I. Management of the Disability Compensation Program – (continued)

Management's Response:

The claims for uniformed personnel are not maintained by ORM (this is a legislated mandate) or by the Metropolitan Police department. Rather, they are maintained by PFC, LLC. The District has a three-year contract with PFC to provide medical services through its affiliate medical service providers to duty-injury uniformed members. It is not clear whether PFC actually maintains claim paid loss reserve information for individual uniformed members.

A complete claims review is underway. ORM and its third party administrator are in the process of assessing the level of claim audit data needed to produce the most complete and accurate claim information for both open and closed claims.

Reportable Conditions in Internal Controls Over Financial Reporting

II. Management of the Unemployment Compensation Trust Fund (UCTF)

The District's Department of Employment Services (DOES) is responsible for the administration of the Unemployment Compensation Program. While performing our testwork, we noted the following:

- One of the requirements for claimant eligibility is to ensure that the claimant was unemployed through no fault of his/her own. To support this, a "Separation of Fact Finding Notification" is sent to the last 30-day employer requesting separation information. The employer must respond within 30 days; a lack of response from the employer constitutes an acceptance of the claim and therefore makes the claimant eligible for benefits.

While testing internal controls over benefit payments, we observed that for 28 of the 45 claimants selected, there was no documentation to determine if the claimant met all of the eligibility requirements necessary to receive unemployment benefits or that the employer concurred that the claimant was laid off through no fault of his/her own.

This is due to the fact that when a claimant is laid off work, a file is not created. Files are only created when there is an issue with the claim that has to be resolved (i.e. if the reason for being laid off is in question or if the amount of wages earned by the claimant during the period is in question). Without a file, the "Separation Fact Finding Notification", or other supporting documentation to review, it is difficult to determine if the claimant is in fact eligible to receive benefits.

Evidence noting that all criteria have been met for eligibility of benefits should be maintained either in hard copy or electronically for each claimant. This information should be maintained and be accessible for review.

Management's Response:

In the 28 cases cited by the auditor, the claimant had indicated on his or her initial claim application that the reason for separation was laid off due to lack of work. Nothing was received from the employer to contradict this. In such cases no file folder is made, consistent with the written recommendation of the DOL's Regional Office.

In the summer of 2004, the Regional Office conducted an onsite review of benefit operations. One of its recommendations was for the District to cease its practice of making claim folders in cases where the claimant was laid off due to lack of work. The Regional Office maintained that the District's procedure diverted staff from dealing with contested cases (folders had to be made, documents had to be associated with the folder including the initial claim form, the monetary determination form, and the separation response if any from the employer, and then the assembled folder had to be filed). Additionally this procedure cluttered the restricted file areas with case folders that involved no eligibility issues.

Reportable Conditions in Internal Controls Over Financial Reporting

II. Management of the Unemployment Compensation Trust Fund (UCTF) – (continued)

The Regional Office's recommendation also made the point that fewer and fewer initial claims were being filed on paper, as claimants utilized the WEB. Our Department accepted this recommendation and ceased making folders in cases where the claimant had indicated "laid off due to lack of work" and the employer either did not return the separation request or confirmed that the separation was due to lack of work. In the 28 cases referenced by the auditor, the claimant did in fact indicate on the initial claim application that he or she was laid off due to lack of work and nothing was received from the employer to indicate that there was a separation issue. Hence no file folders were made in these cases.

- As noted in a prior review performed by the U.S. Department of Labor (DOL), the Tax Division has not complied with the requirement to conduct payroll audits of 2% of the employers remitting tax receipts. As a result, the Tax Division is in direct violation of DOL's compliance requirement.

Management has represented that the Tax Division has not had sufficient staff to conduct the required number of annual audits. In addition, some of the Tax Examiners need additional training and resources to conduct the audits more efficiently and effectively.

As a further benefit of conducting these required audits, the Tax Division can minimize the amount of uncollectible accounts written off annually.

Management's Response:

The Tax Division has two new tax examiners who are being trained. While the goal will be to perform the required number of audits, DOES may not reach that goal in fiscal year 2006.

- Employer tax receipts are processed by a vendor who submits a report of remittances received to DOES. However, no reconciliation is performed to ensure taxes reportedly remitted by the vendor agree with the amounts deposited and recorded in SOAR.

Management's Response:

Management is developing procedures to accomplish a monthly reconciliation of the Tax System to SOAR. SOAR is already reconciled to the bank on a monthly basis.

- Accounts receivable information and the allowance for doubtful accounts are posted to SOAR once a year (at year end). As a result of untimely reconciliations, the accounts receivable balance at year end is overstated by approximately \$10.6 million. The receivable established in fiscal year 2004, in the amount of \$10,045,022, was not reversed in fiscal year 2005 and one employer's penalty assessment for delinquent taxes was erroneously calculated resulting in an additional overstatement of \$608,325.

**Reportable Conditions in Internal Controls
Over Financial Reporting**

II. Management of the Unemployment Compensation Trust Fund (UCTF) – (continued)

We recommend that a reconciliation of the detail to the accounts receivable control be made at the end of each month and that any reconciling items be investigated and cleared promptly.

Management's Response:

The contractor who maintains our automated Tax System will provide a monthly report to the Financial Reporting Unit. The report will include a detailed list of the accounts that comprise the current receivable balance, the amount of tax, interest, and penalties. With this report, a monthly adjustment will be entered in SOAR for the employer tax receivable. A quarterly adjustment will be done on the claimant receivable. For claimants, the quarterly report will include a detailed list of the accounts that comprise the current receivable balance, the date the claim was established, and the activities that occurred during the quarter.

The adjusting entries were entered in SOAR and are reflected in the financial statements. The financial statements are not overstated. Management will inspect the account balances closely and reconcile the accounts receivable and post to SOAR on a monthly basis to minimize the risk of future material misstatements.

- As of September 30, 2004, revenues for Temporary Emergency Unemployment Compensation (TEUC) benefits were posted twice, resulting in a \$6.3 million overstatement in amounts due from the Federal government, revenue, and restricted net assets for unemployment compensation benefits. None of this revenue was collected in fiscal year 2005.

The financial statements from fiscal year 2004 will be restated to show what the account balances would have been if the transaction had been recorded correctly.

Management's Response:

Management concurs with this finding.

Material Noncompliance with Laws and Regulations

III. Noncompliance with Procurement Regulations

The District's procurement transactions are primarily governed by statute, as well as rules and regulations outlined in the District of Columbia Municipal Regulations (DCMR). In addition, the Mayor, Chief Financial Officer, and Director of the Office of Contracting and Procurement (OCP) can issue directives, orders, and memorandums governing procurement actions.

We noted the following findings during our audit process:

Procurement Files Review

- One (1) procurement file was not provided.
- For two (2) transactions selected, the files did not contain relevant documentation to support the amount awarded.
- For one (1) contract modification for information technology services, the sole source determination and finding document and the requisition was not signed by the Contracting Officer.
- Evidence of Council approval for contracts over \$1,000,000 was not documented for two (2) contracts selected for testing.
- We also noted that at Child and Family Services Agency (CFSA), a requisition provided did not agree to the contract awarded and changes were made to the document which were unexplainable by the Agency's contracting personnel.

Section 1203.7 of the DCMR states that files shall be maintained at organizational levels that ensure effective documentation of contracts, ready accessibility to principal users, and conformance with any regulations or procedures for file location and maintenance.

We recommend that OCP review its current controls over document maintenance and retrieval. Special focus should be placed on ensuring that all agencies conform to the regulations and are accountable at a centralized level. Management at the contracting offices should perform a periodic review and design checklists which must be approved by supervisory personnel prior to being filed.

Management's Response:

The Document Maintenance and Retrieval City-Wide initiative that is projected to begin implementation in fiscal year 2007 will provide for the centralized record system that is recommended. It will be designed to interface with the Procurement Automated Support System (PASS) so as to compile PASS documents into a centralized electronic file. In the interim, OCP will revise its current policy and contract file checklist to provide for increased quality control. Supervisors will be required to review contract files upon award and certify that the files contain requisite documents. The contract file checklist will be modified to contain a signature line for the supervisor's signature. Additionally, accuracy and completeness of contract files will be an evaluation factor in annual supervisor and contract specialist performance evaluations.

Material Noncompliance with Laws and Regulations**III. Noncompliance with Procurement Regulations – (continued)**Database Review

- We noted data input errors relating to procurement type, award amounts, award period, etc.
- The database contained contracts with the same contract number and different vendor names, award dates, and procurement methods.
- For some contracts selected, the database did not identify the procurement method and contract numbers used.
- We noted that some contracts covering the same vendor, award date, and amounts were entered multiple times.
- We noted that one (1) grant was included as a contract and as such we were unable to test the applicable requirements.
- We noted that the Department of Mental Health (DMH) and CFSA do not have databases which track all contracts; instead contracts are entered into an Excel spreadsheet for which the agencies could not confirm its completeness.

We recommend that the District strengthen controls over its contracting database. It is critical that periodic reviews are conducted during the year to ensure the integrity of the database. Commodity managers should be responsible for the review of the information and a report documenting any errors and their disposition should be communicated to senior management.

We also recommend that the District consider the design and maintenance of a centralized tracking system with information that identifies the amount and status of each contract entered into.

Management's Response:

OCP recognizes the need to further strengthen controls over its contracting database and to have a centralized tracking system. This will be accomplished when the Contract Compliance and Sourcing Modules are incorporated into PASS to make it a fully functional electronic procurement system. In the interim, OCP will improve the integrity of its Contract Activity Database (CADS) by retraining personnel on its use and by enforcing our quality control requirements for monthly reviews of data entered into the database.

Compliance with Regulations as outlined in the DCMR

- Twelve (12) contracts were in excess of the \$1,000,000 ceiling but there was no evidence of approval from the Council.
- Sixteen (16) transactions were recorded as accrued expenses but were not supported by valid task orders prior to the services being rendered. Thirteen (13) of these transactions were recorded by DMH and three (3) by the District of Columbia Public Schools (DCPS).



Appendix B

Material Noncompliance with Laws and Regulations

III. Noncompliance with Procurement Regulations – (continued)

- Support for twelve (12) contracts which exceeded the dollar threshold for small purchases was not provided.
- Seven (7) contracts lacked documentation in support of the rationale to limit competition (4 were identified during our work performed at CFSA and 3 were identified during our work performed at OCP).
- The determination and findings was not provided for a sole source contract. Hence we were unable to test whether the rationale to limit competition was reasonable.
- Documentation to indicate the history of procurement was missing from one (1) file at CFSA.

Purchase Order Splitting

- Three (3) vendors, for which short-term purchase orders were individually less than \$1,000,000 but cumulatively totaling over \$1,000,000 each, were issued to the same vendor for similar services within a twelve month period.
- Invoice splitting appeared to exist with twenty (20) vendors who provided similar services with different purchase orders.

We recommend that OCP and all independent agencies review their current contracting procedures with special focus on the contracting officers or designees and their responsibilities for ensuring compliance with contract dollar limitations and the approval process. The commodity managers should meet with senior procurement personnel to review the status of certain contracts during the year and action should be taken to remedy deficiencies cited.

Management's Response:

OCP has implemented measures to ensure adherence to policies regarding contract dollar limits and Council review requirements and shall continue to focus on compliance in these areas. We do, however, consider the finding on splitting contracts to be due to a difference in interpretation.

The issuance of multiple purchase orders or contracts to a vendor does not automatically constitute a splitting of requirements for either Council review or small purchase limitation purposes. D.C. Official Code sec. 1-204.51(b)(1) modifies the District's Home Rule Act to include the requirement for Council review of million dollar contracts. The provision specifically states:

No contract involving expenditures in excess of \$1,000,000 during a 12-month period may be made unless the Mayor submits the contract to the Council for its approval and the Council approves the contract (in accordance with criteria established by the Council).

Material Noncompliance with Laws and Regulations

III. Noncompliance with Procurement Regulations – (continued)

The Council's criteria are set forth in D.C. Official Code sec. 2-301.05a, of which subsection (a) states:

Pursuant to §1-204.51 ("FRMAA"), prior to the award of a multiyear contract or a contract in excess of \$1,000,000 during a 12-month period, the Mayor (or executive independent agency) shall submit the proposed contract to the Council for review and approval in accordance with the criteria established in this section.

Each of the quoted provisions references a contract that during a 12-month period exceeds one million dollars. Neither provision requires, either explicitly or implicitly, that all purchases to a particular vendor during a 12-month period be totaled and that the total be used as a basis for determining whether Council review is necessary. The statutory provisions are clear that the requirement for review is determined on a contract-by-contract basis.

While neither provision mentions a prohibition against splitting of contracts, OCP applies a good faith approach and does not split contracts to avoid Council review. If OCP reasonably believes that a contract will exceed one million dollars, OCP obtains Council review and approval. On the other hand, if OCP awards two contracts for similar goods or services during the course of a 12-month period to the same contractor, and the two contracts total over one million dollars, Council review is not automatically invoked. As mentioned above, the Council review requirements are on a contract-by-contract basis and each contract should be considered separately.

If the fact that the two contracts are for similar goods or services raises a concern, there are still additional factors to be considered, since splitting of contracts requires an element of intent to do so. The provisions referenced above do not set forth what these additional factors are; however, by analogy to the relevant factors for determining whether purchases have been split to avoid small purchase thresholds, examples of these other factors include: (1) Did the contracting officer have advance knowledge of the total requirement? (2) Were the requirements separated into smaller contracts simply to avoid Council review and approval? (3) Was there a valid reason to separate a larger requirement into smaller contracts, such as lack of available funding to procure the total requirement? (4) Was the total requirement separated into smaller contracts to enable small, local, or disadvantaged businesses to participate in the procurement? [See *Nash and Cibinic, Formation of Government Contracts, Third Edition, 1998, at p. 988-989*]

Taking into account that the Council provisions require review on a contract-by-contract basis and not by aggregation of dollar amounts of multiple contracts, and that there are many factors to look at in determining whether a contracting officer intentionally split a contract to avoid Council review, it is clear that all contracts awarded in a 12-month period should not be aggregated to determine whether Council review is required. Further, it is clear that contracts for similar goods or services during a 12-month period should not be aggregated merely because they are for similar goods or services, unless there is an assessment of factors such as those listed above and there is a determination that a contracting officer intentionally split the contracts.



Appendix B

Material Noncompliance with Laws and Regulations

III. Noncompliance with Procurement Regulations – (continued)

As to small purchases and whether purchases were split to keep them within the small purchase threshold, a similar analysis applies. D.C. Official Code §2-303.21 sets forth the small purchase limits of \$500,000 for the Metropolitan Police Department and the Office of the Chief Technology Officer and \$100,000 for all other agencies. It further states that:

Procurement requirements shall not be parceled, split, divided, or purchased over a period of time in order not to exceed the dollar limitation for use of these small purchase procedures.

This provision does not define what constitutes whether requirements are “parceled, split, divided, or purchased over a period of time,” but it does include the element of “intent” by stating that they cannot be split “in order not to exceed the dollar limitation for use of these procedures.” The element of intent requires an examination of factors similar to those described above in the discussion of determining whether contracts were split to avoid Council review. [See *Nash and Cibinic, Formation of Government Contracts, Third Edition, 1998, at p. 988-989*]. Again, it is not appropriate to simply total all purchases to a vendor, even if the purchases are for similar goods or services, and reach the conclusion that the purchases were split to avoid small purchase thresholds.

Material Noncompliance with Laws and Regulations

IV. Noncompliance with the Quick Payment Act

The Quick Payment Act of 1984 states, in part, the following:

In accordance with rules and regulations issued by the Mayor of the District of Columbia ("Mayor"), each agency of the District of Columbia government ("District"), under the direct control of the Mayor, which acquires property or services from a business concern but which does not make payment for each complete delivered item of property or service by the required payment date shall pay an interest penalty to the business concern in accordance with this section on the amount of the payment which is due.

Specifically, the due dates required are as follows:

- The date on which payment is due under the terms of the contract for the provision of the property or service;
- 30 calendar days after receipt of a proper invoice for the amount of payment due;
- In the case of meat or a meat food product, a date not exceeding seven calendar days after the date of delivery of the meat or meat food product; and
- In the case of agricultural commodities, a date not exceeding seven calendar days after the date of delivery of the commodities.

Furthermore, the act addresses various requirements for payment of interest penalties and includes provisions regarding required reports as follows:

- Each District agency shall file with the Mayor a detailed report on any interest penalty payments made.
- The report shall include the numbers, amounts, and frequency of interest penalty payments, and the reasons the payments were not avoided by prompt payment, and shall be delivered to the Mayor within 60 days after the conclusion of each fiscal year.
- The Mayor shall submit to the Council within 120 days after the conclusion of each fiscal year a report on District agency compliance with the requirements.

For the year ended September 30, 2005, we noted many instances where the District failed to comply with the Quick Payment Act.

Management's Response:

Payments to suppliers of goods or services should not be made without certification that the goods and or services have been received. Vendor payments associated with procurement activities are initiated through the Procurement Automated Support System (PASS). Payments are approved only after program operations have recorded the receipt of goods or services in PASS. PASS will not generate the payments until the receipt is recorded. The "receipt of goods and services recordation process" has not always been timely, and has occasionally resulted in untimely payments to vendors. The OCFO staff has increased its efforts to assist program operations in the timely recording of the receipt of goods/services. We are confident that the OCFO's support will significantly improve the timeliness of payments to vendors.

Material Noncompliance with Laws and Regulations

V. Expenditures in Excess of Budgetary Authority

The Anti-Deficiency Act states, in part, the following:

A District agency head, deputy agency head, agency chief financial officer, agency budget director, agency controller, manager, or other employee may not: (1) Make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund.

The Home Rule Act states, in part, the following:

No amount may be obligated or expended by any officer or employee of the District of Columbia government unless such amount has been approved by Act of Congress, and then only according to such Act.

Section 301 of the D.C. Appropriations Act 2005, enacted October 18, 2004, states, in part, the following:

Whenever in this Act, an amount is specified within an appropriation for particular purposes or objects of expenditure, such amount, unless otherwise specified, shall be considered as the maximum amount that may be expended for said purpose or object rather than an amount set apart exclusively therefore.

The District's basic financial statements state in note 1, "Appropriated actual expenditures and uses may not legally exceed appropriated budget expenditures and uses at the function level. A negative expenditure variance in the budgetary comparison statement for a particular function is a violation of the Anti-Deficiency Act and the District of Columbia Anti-Deficiency Act. Also, a violation of the Anti-Deficiency Act exists if there is a negative expenditure variance for a particular purpose or object of expenditure within an appropriation."

At September 30, 2005, the Department of Mental Health (DMH) had overspent its local budget by \$4.1 million, thus violating the Anti-Deficiency and Home Rule Acts.

Management's Response:

As of September 30, 2005, DMH had overspent its revised local budget of \$185.2 million by \$4.1 million, thereby violating the District's Anti-Deficiency Act of 2002. The \$4.1 million overspending reflected a \$7.1 million write-off of Medicaid account receivables deemed to be uncollectible for fiscal years 2004 and 2003, offset partly by \$3 million in underspending of personal services (\$1.3 million) and non-personal services (\$1.7 million). In addition, the District provided \$15 million from the Contingency Cash Reserve to enable DMH to pay estimated outstanding amounts due to public health providers for court-mandated services to avoid a potential disruption of ongoing mental health services. The additional \$15 million in expenditures represented higher-than-budgeted operating service levels. Without the \$15 million from the Contingency Cash Reserve, the Comprehensive Annual Financial Report (CAFR) would have reported a \$19.1 million local budgetary deficit instead of the \$4.1 million for DMH.

Material Noncompliance with Laws and Regulations**VI. Noncompliance with Financial Institutions Deposit and Investment Amendment Act**

(A) For general deposit and investment requirements, the Act, among other requirements, dictates the following:

The Mayor, or the CFO pursuant to Section 47-351.2(c), shall not allow the amount of District funds deposited or placed for the provision of financial services in a single eligible financial institution to exceed the lesser of either:

- a) Twenty-five (25) percent of the total assets of the eligible financial institution, exclusive of the District funds; or
- b) Twenty-five (25) percent of the total District funds available for deposit or investment as of the date of such deposit or placement and as of the end of each fiscal quarter thereafter.

Our compliance testwork revealed 8 instances of non-compliance with the aforementioned provision where deposits held by a single institution exceeded 25% of all District deposits. These violations occurred throughout the fiscal year. We recommend that the Office of Finance and Treasury (OFT) closely monitor the District's deposit percentages with all financial institutions, to ensure compliance with these requirements.

Management's Response:

Management concurs. A procedure has been established and is being followed daily to ensure that the District meets its 25% limitation requirement.

(B) For collateral requirements, the Act, among other requirements, dictates the following:

Except for securities directly purchased without a repurchase agreement and money market funds, an eligible financial institution must at all times provide collateral equal to at least 102% of the District funds held by the eligible financial institution for deposits and investments that are not fully federally insured.

During our procedures, we noted two instances of non-compliance with the aforementioned provision, where the collateral held by the District's investment custodians was less than 102% of the value of the particular investment. We recommend that OFT closely monitor the collateral held by the custodians, to ensure that the District remains in compliance with the requirements of this law.

Management's Response:

The procedure is for the Investment Custodial Bank (M&T Bank) to monitor the 102% limitation on a daily basis. If a deficiency is discovered, the Investment Custodial Bank will notify OFT which will then request additional collateral from the financial institution.



Appendix B

Material Noncompliance with Laws and Regulations

VI. Noncompliance with Financial Institutions Deposit and Investment Amendment Act – (continued)

In the two instances reported, the District's Investment Custodial Bank (M&T Bank) detected the deficiencies on the dates of occurrence and informed OFT of the deficiencies. OFT then requested and received additional collateral from the stated financial institutions. OFT has provided supporting documentation of the collateral requests showing the resultant increase in collateral by the financial institution.

(C) Additionally, we noted that the Office of Finance and Treasury had executed a contract with a non-insured financial institution without following the District's policy and procedures.

Management's Response:

Management concurs and is handling the situation appropriately.



Appendix C

Status of Prior Year Reportable Conditions and Material Noncompliance with Laws and Regulations

Nature of Comment	Type of Comment in FY 2004	Current Year Status
Management of Disability Compensation Program	Reportable Condition	Reportable Condition
Unemployment Compensation Claimant File Management	Reportable Condition	Reportable Condition
Noncompliance with Procurement Regulations	Material Noncompliance	Material Noncompliance